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UNCLAS SECTION 01 OF 03 VIENTIANE 000632

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DEPT FOR EAP/MLS AND EB/ESC/IEC
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SUBJECT: MOVING LAOS INTO CHINA, TRUCK BY TRUCK

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¶1. (SBU) Summary: Laos has mineral resources and China wants them. A regional mining conference in Vientiane shows the deep penetration of the Chinese into the mining sector, and the GoL's preferential treatment of its Chinese investors. Anxious to attract the investment, the Lao have little capacity or commitment for insisting on mining companies' respecting environmental standards. Left to its own devices, the mining industry, spearheaded by myriad Chinese companies, may wreak havoc on Laos' environment and provide very little in exchange. End Summary.

Hot rocks

¶2. (U) The June 16 Greater Mekong Subregion Mining Conference, organized by the newly-formed Ministry of Energy and Mines, aimed at attracting investor attention to this booming sector of the economy. Laos is comparatively mineral-rich, sharing a common geology with the mineral-producing region of southern China. However, only about 30 percent of the country has been mapped (mostly by the Soviet Union during the late 1970s), and less than 10 percent has been extensively explored. Gold and silver are both present in commercially viable amounts, and gold, along with copper, are currently big-ticket export items. There are also substantial deposits of zinc, lead, tin, antimony and bismuth. Of metallic minerals there are scattered but substantial deposits of cobalt, manganese, and tungsten, and probably substantial amounts of iron. Precious and semi-precious stones are found in several parts of the country. Anthracite coal is found in the northern provinces.

¶3. (U) Mining is clearly set to become one of the mainstays of the Lao economy, perhaps eventually its largest earner of revenues, and the GoL is accordingly keen to develop the sector. Oxiana, the Australian gold and copper mining firm operating in Salawan Province, is emblematic of how this will happen. Another Australian firm, Phu Bia mining, is running a smaller gold and copper mining operation in northern Vientiane Province. Gold and copper exports, non-existent before 2003, by 2005 were valued at $53 and $64 million respectively. Those figures will climb significantly over the next several years, especially when Phu Bia begins production on a larger scale.

¶4. (U) In 2006 the Oxiana operation is expected to produce 170,000 oz. of gold and 60,000 tons of copper. Oxiana paid $7

million in royalties to the GoL in 2005 (their first full year of production). For 2006 that figure is expected to exceed $16 million. The company paid taxes of an additional $7 million, up to more than $30 million for 2006. These are very considerable revenues in a tiny economy with a total GDP of $2.5 billion, and unlike the case of hydropower from the Nam Theun II Project, there are no safeguards or guidelines for how these revenues are to be used or accounted for within the GoL.

The investment climate gives China another edge
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¶5. (SBU) Dreadful infrastructure and worse government have made the kinds of investment needed to exploit these mineral riches hard to come by. The Australians, accustomed to working in bad neighborhoods, have been the exception. These days, such large and lucrative investments are generally safe from GoL interference or harassment (though Oxiana did have to agree to an un-scheduled re-negotiation the amounts they remit to the GoL as the world market prices of Gold and Copper rose). But lack of rule of law has resulted in some expropriation and claim-jumping of smaller foreign-owned operations over the years, sometimes by Chinese interests and with official GoL connivance.

An environmental and political price

¶6. (SBU) Reading between the lines of the mining conference, the mining sector is set to become another environmental disaster, if the customary Chinese disregard for pollution and ecological degradation pertains. A representative of the Yunan Bureau of Mineral Resources gave a lengthy paper on ore prospecting and extraction methods. He made no mention at all of the environment or methods to mitigate negative externalities. In fact, among the investors only the Australians mentioned environmental concerns. After he spoke, two American academics in the environmental field gave a

brave but hopeless soliloquy on mistakes made and lessons learned during mining in the Philippines.

¶7. (SBU) In fact, the Lao Mining Law of 1997 provides, albeit in very general terms, for mitigation of environmental damage. There is even a provision for restoration of the topography to its original configuration, as well as for resettlement and compensation for villagers affected by mining operations - articles no one believes will ever be fully enforced. The law also identifies all the mineral wealth in the country as the property of the State, and subject to centralized management by the GoL, so there is little question of the mining sector becoming a spur to Lao private enterprise. However, some Chinese and Vietnamese outfits pursue exploration and extraction without GoL input.

Dig that coal, and get the lead out

¶8. (U) Coal and lead are growing in importance as exports to China (Lao anthracite finds a ready market in Yunan), with Chinese exploitation hampered only by poor infrastructure. Coal deposits in Vientiane Province alone are estimated at about 11 million extractable tons, requiring the removal of at least 25 million cubic meters of overburden in open pit operations. Plans are well under way for Chinese-Lao joint ventures to begin mining at three locations in the province, and coal exploration is on-going in Luang Prabang and Phongsali Provinces, as well.

¶9. (U) A Lao lead mining company, financed with Chinese loans, is extracting lead and zinc at several points (Pha Deng and Pha Sot) in northern Vientiane Province. All this is for the Chinese market, hauled by trucks up torturous Route 13, to the border with China. Estimates for 2006 production levels are 20,000 tons of zinc and 10,000 tons of lead. Iron is mined in at least five locations in several northern provinces, with estimated reserves at those five places in

excess of 4.4 million tons. Although there have been some Thai buyers in the past, all the iron is now being sold to Chinese.

Obeisance to the Middle Kingdom

¶10. (SBU) Laos has a new Ministry of Energy and Mines (MEM), intended to be a counterpart to other such ministries among the ASEANs. As the new MEM Minister Bosaykham Vongdara presided over the opening of the GMS meeting on mining opportunities, it became immediately apparent that the meeting was a showcase for Yunan Chinese mining interests.

¶11. (SBU) The representative of Australia's Oxiana Co. (currently the largest single mining operation in Laos, and having an interest in the Chinese market) praised the Chinese for their bold exploitation of minerals around the world and elicited some raised brows among the diplomats present by referring to China as East Asia,s natural hegemon, now at last returning to its historically rightful place at the head of the World Order. The proper economic role of the GMS countries in this order of things is that of supplier of raw materials to the Chinese economy. He bemoaned the slow pace at which raw materials are currently making their way northward from Laos and the other ASEANS. In Laos, inefficient regulatory structures and poor infrastructure were the cause.

Get on the stick, little comrades

¶12. (SBU) The President of the Yunan Chamber of Commerce then took the floor to describe the mineral-rich geology of Yunan Province and to boast of the number of international joint ventures under way there. He expressed interest in Lao coal, copper, and gold, and mentioned some 20 Yunan Chinese mining-related interests in Laos, including a new aluminum oxide operation. As he finished he snapped everyone to attention by forthrightly identifying the low level of efficiency among GoL officials as a main impediment to commerce. He encouraged Laos, and all the GMS countries, to do away with regulatory prohibitions, to develop infrastructure and transportation, to simplify customs procedures, and to offer more tax incentives for foreign mining companies.

Comment: The Chinese are trying to corner the market
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¶13. (SBU) Marginally on the scene in Lao mining since the

Soviets left, the Chinese are now moving in fast, with as many as 30 mining operations officially in the country, and probably quite a few others working underground. Their insatiable appetite for raw materials and the strategic proximity of Laos to their southern border make it inevitable that this undeveloped country will fall into the China,s orbit - indeed into its maw. The GoL does not have the finances or the expertise to exploit their own mineral wealth, and evidently has no intention of reforming their economy sufficiently to attract more socially or environmentally conscious investors.

¶14. (SBU) The Chinese connection makes these things unnecessary. The prospect of large revenues untrammeled by outside scrutiny or interference regarding their use make this growing dependence upon China more congenial to the GoL than it would have been formerly, even to the cost of their erstwhile patrons, the Vietnamese (who also run a handful of mining and quarrying operations in the south-central part of the country). The North Koreans have mined for tin (allegedly) in Khammuan Province, but evidently have stalled. With their exploration teams looking for bauxite in the south, and with the whole survey and exploration concession for the north already sewn up, the Chinese have a clear field before them. They are already prospecting for gems, zinc, lead and tin in several provinces north-central provinces. To

hear the Australians tell it, the Chinese have a corner on future concessions for extraction of precious minerals.

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